While the accounting staff of the Cooperative has the ability to perform the daily accounting functions and prepare monthly financial reports for management purposes, they have chosen to rely on the financial statement auditor to prepare the year-end financial statements and supporting note disclosures. Under current audit standards, the financial statement auditor cannot be considered part of the Cooperative's internal control over financial reporting, and therefore, our drafting of the year-end financial statements and notes is considered to be a significant deficiency in the Cooperative's internal control over financial reporting.

Even though management has requested the auditors' assistance in preparing the financial statements and notes, management is still responsible for the financial information presented. In addition, management is responsible for:

- Making management decisions and performing all management functions.
- Designating an individual with suitable skill, knowledge, or experience to oversee the services provided by the auditors.
- Evaluating the adequacy and results of the services performed by the auditors.
- Accepting responsibility for the results of the services performed by the auditors.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

THE COOPERATIVE'S RESPONSE TO FINDINGS

The Cooperative has evaluated the situation and has determined that the current level of staffing is adequate to prepare the monthly financial reports to management, and that the resulting reports are appropriate. The Cooperative will continue to outsource the drafting of the annual, year-end financial statements and supporting note disclosures to external experts. The Cooperative's response to the findings identified in our audit is described above. We did not audit the Cooperative's response and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AKT LLP

Salem, Oregon
April 4, 2013

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE *STATE OF ALASKA AUDIT GUIDE AND COMPLIANCE SUPPLEMENT FOR STATE SINGLE AUDITS*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nushagak Electric and Telephone Cooperative, Inc.
Dillingham, Alaska

COMPLIANCE

We have audited Nushagak Electric and Telephone Cooperative's (the Cooperative's) compliance with the types of compliance requirements described in the State of Alaska Audit Guide and Compliance Supplement for State Single Audits that could have a direct and material effect on the Cooperative's major state programs for the year ended December 31, 2012. The Cooperative's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cooperative's management. Our responsibility is to express an opinion on the Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the ***State of Alaska Audit Guide and Compliance Supplement for State Single Audits***. Those standards and the State of Alaska Audit Guide and Compliance Supplement for State Single Audits require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Cooperative's compliance with those requirements.

In our opinion, the Cooperative complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2012. However, as described in item 2012-2, in the accompanying schedule of findings and questioned costs, the Cooperative did not comply with requirements regarding quarterly reporting of grant progress that are applicable to the Lake Elva Hydropower Feasibility, Permitting & Final Design grant. Compliance with such requirements is necessary, in our opinion, for the Cooperative to comply with the requirements applicable to that program.

INTERNAL CONTROL OVER COMPLIANCE

Management of the Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Cooperative's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the ***State of Alaska Audit Guide and Compliance Supplement for State Single Audits***, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over compliance.

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A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over compliance to be significant deficiencies.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-1 to be a significant deficiency.

The Coöperative's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Cooperatives responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

AKT LLP

Salem, Oregon
April 4, 2013

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

Section 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	____	yes	X	no
Significant deficiencies identified not considered to be material weaknesses?	X	yes	____	no
Noncompliance material to financial statements noted?	____	yes	X	no

State Financial Assistance

Type of auditors' report issued on compliance for major programs:	Unqualified			
Internal control over major programs:				
Material weakness(es) identified?	____	yes	X	no
Significant deficiencies identified not considered to be material weaknesses?	____	yes	X	no
Dollar threshold used to distinguish a state major program	$50,000			

Section 2 - Financial Findings

Finding 2012-1

We consider the following deficiencies to be significant deficiencies in internal control:

- **Financial Reporting** - Our expertise is required to draft the financial statements and supporting notes in conformity with accounting principles generally accepted in the United States of America. While the accounting staff performs daily bookkeeping duties and prepares accurate monthly financial reports for management purposes, they have requested that we draft the financial statements and supporting notes in accordance with generally accepted accounting principles.

Section 3 - State Award Findings and Questioned Costs

Finding 2012-2	Quarterly Progress and Financial Reports, Lake Elva Hydropower Feasibility, Permitting & Final Design, Grant 2195419
Criteria	Appendix D of the grant agreement states that the "Grantee will provide quarterly status reports by email (or other method allowed by the Authority, if email is not available) to the AEA Project manager: Reports are due January 31st, April 30th, July 31st, and October 31st of each year the grant is in place. If the due date is a weekend or Holiday, reports are due the following business day".
Condition	The Cooperative did not comply with the deadline for the reports in the first quarter of 2012.
Question Costs	None
Context	Due to turnover of staff, the Cooperative was working directly with the AEA to gather information and settle any outstanding reimbursement requests previously filed by the Cooperative.

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

Effect	The Cooperative is not in compliance with appendix D of the grant agreement.
Cause	The Cooperative was corresponding directly with the AEA, gathering required information for the report. Due to the turnover of the primary contact with AEA, the filing process was longer than anticipated.
Recommendation	The Cooperative should implement a system to ensure quarterly reporting is achieved timely.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

Corrective Action Plan

Financial Statement Findings

Finding:	2012-1 Financial Reporting
Name of Contact Person	Mike Megli, CEO
Corrective Action	Management has evaluated the situation and has determined that it is cost prohibitive to internally maintain the level of expertise to draft the financial statements and supporting notes, and as such will continue to outsource these matters to external parties.

State Award Findings and Questioned Costs

Finding:	2012-2 Quarterly Progress and Financial Reports
Name of Contact Person:	Michael Favors, Telecom Operations Manager
Corrective Action	The Cooperative has worked closely with the AEA to ensure quarterly reporting is completed and submitted timely.

REDACTED - FOR PUBLIC INSPECTION

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INDEPENDENT AUDITORS' MANAGEMENT LETTER

To the Board of Directors
Nushagak Electric and Telephone Cooperative, Inc.
Dillingham, Alaska

We have audited the financial statements of Nushagak Electric and Telephone Cooperative, Inc. (the Cooperative) for the year ended December 31, 2012, and have issued our report thereon dated April 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America, and 7 CFR 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Cooperative as of and for the year ended December 31, 2012, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting, and of the objectives and inherent limitations in such control, is set forth in our independent auditors' report on internal control over financial reporting and on compliance and other matters dated April 4, 2013 and should be read in conjunction with this report.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed in our independent auditors' report on internal control over financial reporting and on compliance and other matters, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting which we have included in our independent auditors' report on internal control over financial reporting and on compliance and other matters.

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7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR 1773.33(e)(2), related party transactions, depreciation rates, a schedule of deferred debits and credits, and a schedule of investments, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR 1773.38-45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instruments provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports other than our independent auditors' report on the financial statements, and our independent auditors' report on internal control over financial reporting and on compliance and other matters, both dated April 4, 2013, or our summary of recommendations related to our audit, have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR 1773.33 are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting
We noted no matters regarding the Cooperative's internal control over financial reporting and its operation that we consider to be a material weakness, as previously, defined, with respect to the:

- Accounting procedures and records;
- Process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts and ;
- Materials control.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions
At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures we performed are summarized as follows:

- In performing the procedure with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 2012, we:

    1. Obtained and read a borrower-prepared schedule of new written contracts, agreements, or leases entered into during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 7 CFR 1773.33(e)(2)(i).

    2. Reviewed Board of Directors minutes to ascertain whether Board-approved written contracts are included in the borrower-prepared schedule.

    3. Noted the existence of written RUS and other mortgagee approval of each contract listed by the borrower.

- In performing the procedure with respect to the requirement to submit RUS Form 7 to the RUS, we:

    1. Agreed amounts reported in the Form 7 to the Cooperative's records.

The results of our tests indicate that, with respect to the items tested, the Cooperative complied, in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has obtained written approval of the RUS and other mortgagees to enter into any contract, agreement, or lease for the operation or maintenance of property, or for the use of mortgaged property by others as defined in 7 CFR 1773.33(e)(2)(i).

- The borrower has submitted its Form 7 to the RUS, and the Form 7, Financial and Statistical Report, as of December 31, 2012, represented by the borrower as having been submitted to RUS, is in agreement with the Cooperative's audited records in all material respects.

Comments on Other Additional Matters
In connection with our audit of the financial statements of the Cooperative, nothing came to our attention, except as noted below, that caused us to believe that the Cooperative failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33(c)(1). The Cooperative's subsidiary plant records for central office and cable and wire have not been updated to agree with the general ledger. The Cooperative is in the process of updating these records to ensure the balances agree to the general ledger going forward.
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33(c)(2).
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4).
- The approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR 1773.33(c)(5).
- The disclosure of material related party transactions, in accordance with FASB ASC 850-10-50-1, *Related Party Transactions*, for the year ended December 31, 2012, in the financial statements referenced in the first paragraph of this report, addressed at 7 CFR 1773.33(e).
- The depreciation rates addressed at 7 CFR Part 1773.33(g).
- The detailed schedule of deferred debits and deferred credits.
- The detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole and the detailed schedule of deferred debits and deferred credits required by 7 CFR 1773.33(h), provided below, is presented for purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deferred debits at December 31, 2012 relate to the electric division and consist of the following:

Overhaul of generator no. 12	$ [redacted]
Overhaul of generator no. 13	[redacted]
Overhaul of generator no. 14	[redacted]
Overhaul of generator no. 15	[redacted]
Air quality permits program	[redacted]
Employee moving costs	[redacted]
Other	[redacted]
Total deferred charges	$ [redacted]

The Cooperative had no deferred credits at December 31, 2012.

The detailed schedule of investments required by 7 CFR 1773.33(i) has been omitted as the Cooperative does not have investments in affiliated or subsidiary companies that control the Cooperative, are controlled by the Cooperative, or are in common control with the Cooperative.

This report is intended solely for the information and use of the Board of Directors, management, and the Rural Utilities Service and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

AKT LLP

Salem, Oregon
April 4, 2013

Nushagak Electric and Telephone Cooperative, Inc.

To the Board of Directors

Year Ended December 31, 2012

AKT | CPAS AND BUSINESS CONSULTANTS

April 4, 2013

To the Board of Directors
Nushagak Electric and Telephone Cooperative, Inc.

Dear Members of the Board:

We have audited the financial statements of Nushagak Electric and Telephone Cooperative, Inc. (the Cooperative) for the year ended December 31, 2012, and have issued our report thereon dated April 4, 2013.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 18, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Cooperative are described in Note 1 to the December 31, 2012 financial statements. No new accounting policies were adopted and the applications of existing policies were not changed during 2012. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant accounting estimates reflected in the financial statements include; the allowance for doubtful accounts receivable, useful lives of property, plant and equipment, and fair value measurements of financial instruments and investments.

During the year ended December 31, 2012, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates. We evaluated the key factors and assumptions used in determining that those estimates are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures are those related to long term debt, and effects of changes in the regulatory environment on the Cooperative.

The financial statement disclosures are neutral, consistent and clear.

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AUDIT ADJUSTMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. These misstatements are commonly referred to as audit adjustments. For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Cooperative's financial reporting process (that is, cause future financial statements to be materially misstated).

As a result of our audit procedures and during the course of the audit, there were 7 proposed adjustments for the Cooperative, including adjustments proposed by management. All of these adjustments were recorded to the general ledger and are reflected in the financial statements.

In addition, we are obligated by auditing standards generally accepted in the United States of America to inform you about uncorrected misstatements (regardless of whether they have a significant effect on the financial reporting process) aggregated by us during the current engagement, and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. No such misstatements were noted in the performance of our audit procedures.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties during the audit and received the full cooperation of the Cooperative's management and staff and had unrestricted access to management in performing and completing our audit.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated April 4, 2013.

MANAGEMENT CONSULTATION WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of the Board of Directors, management, and others within the Cooperative and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss this report with you further at your convenience.

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